

**BOARD OF COUNTY COMMISSIONERS  
AGENDA ITEM SUMMARY**

**SPECIAL BOCC WORKSHOP**

Meeting Date: August 2, 2006

Division: BOCC

Bulk Item: Yes ☐ No ☒

Department: DISTRICT FIVE

Staff Contact Person: Donna Hanson

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**AGENDA ITEM WORDING:** Discussion item—Wastewater Treatment Plant Alternative in the Stock Island, Big Coppitt service area.

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**ITEM BACKGROUND:** See attached correspondence from Jim Reynolds, Executive Director, Florida Keys Aqueduct Authority.

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**PREVIOUS RELEVANT BOCC ACTION:**

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**CONTRACT/AGREEMENT CHANGES:**

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**STAFF RECOMMENDATIONS:**

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**TOTAL COST:** N/A

**BUDGETED:** Yes ☐ No ☐

**COST TO COUNTY:**

**SOURCE OF FUNDS:**

**REVENUE PRODUCING:** Yes ☐ No ☐ **AMOUNT PER MONTH**  **Year**

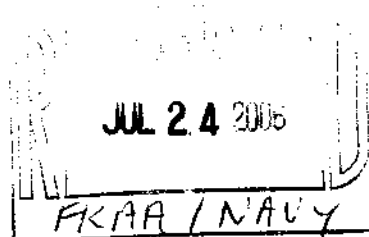
**APPROVED BY:** County Atty ☐ OMB/Purchasing ☐ Risk Management ☐

**DIVISION DIRECTOR APPROVAL:** Glenn Patton  
**COMMISSIONER GLENN PATTON**

**DOCUMENTATION:** Included ☒ Not Required ☐

**DISPOSITION:**

**AGENDA ITEM #**



**Hanson-Donna**

**From:** Jim Reynolds [jreynolds@fkaa.com]  
**Sent:** Monday, July 24, 2006 4:25 PM  
**To:** BOCCDIS5  
**Cc:** Willi-Tom; Kirk Zuelch; Kerry Shelby; bobdeankw@aol.com; dritz@orcareef.com; Elena\_Herrera@DCF.State.FI.us; MaryR@orionbank.com; Rose15@earthlink.net  
**Subject:** Navy Sewer Plant Correspondence  
**Attachments:** Reavis Response 9March2004.pdf; Reavis 2March2004.pdf

Mr. Patton –

As you requested, attached are copies of a letter from the Fkaa to the Navy and a copy of their response regarding the Fkaa's interest in acquiring the sewer system if the Navy's negotiation with Key West Resort Utility was unsuccessful. There were also several verbal discussions that occurred as well.

I will send you information regarding our negotiations to purchase Key West Resort Utility in a separate email.

Please call me if you have any questions.  
Jim

7 25 2006



DEPARTMENT OF THE NAVY  
SOUTHERN DIVISION  
NAVAL FACILITIES ENGINEERING COMMAND  
P.O. BOX 190010  
2155 EAGLE DRIVE  
NORTH CHARLESTON, S.C. 29419-9010

RETURN RECEIPT REQUESTED

09 March 2004

Mr. James C. Reynolds  
Florida Keys Aqueduct Authority  
P. O. Box 1239  
1100 Kennedy Drive  
Key West, FL 33041-1239

SUBJECT: SOLICITATION N62467-00-R-1801, DEPARTMENT OF THE  
NAVY UTILITY PRIVATIZATION FOR AREA D

Dear Mr. Reynolds:

This is in response to your letter dated March 02, 2004, concerning the subject solicitation as it pertains to the privatization of the water and wastewater systems at the Naval Air Station (NAS), Key West, Florida. Specifically, you are interested in submitting a proposal for the wastewater treatment facilities that service the Navy in the Key West area.

Since the time specified in the solicitation for receipt of offers, i.e., June 24 2003, has expired, the Navy is unable to accept a proposal at this time (FAR 14.3).

If the Navy is unable to privatize the wastewater treatment facility at NAS Key West and another solicitation is issued, you will be able to propose at that time.

Please contact John A. Jeffries at 843-820-5904 or email at [john.a.jeffries@navy.mil](mailto:john.a.jeffries@navy.mil) if you have questions concerning our decision.

Sincerely,

Kimberly Reavis  
Utilities/Facility Support Director  
Contracting Officer

RECEIVED

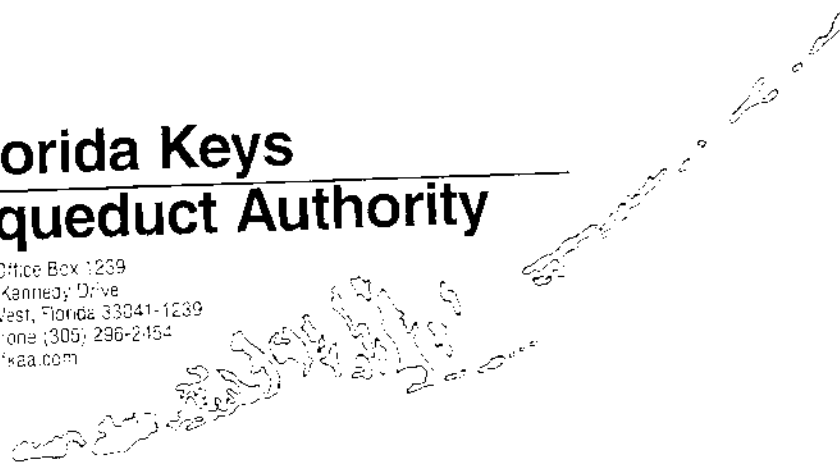
MAR 18 2004

EXECUTIVE OFFICE



# Florida Keys Aqueduct Authority

Post Office Box 1239  
1100 Kennedy Drive  
Key West, Florida 33041-1239  
Telephone (305) 296-2454  
www.fkaa.com



John M. Koehnig, Sr.  
Chairman  
Key West

Mary L. Rice  
Vice-Chairman  
Marathon

Harry E. Cronin  
Secretary-Treasurer  
Key Largo

Elena Z. Herrera  
Rockland Key

Rose Jol  
Big Pine Key

James C. Reynolds  
Executive Director

March 2, 2004

Department of the Navy  
Kimberly Reavis  
P.O. Box 190010  
North Charleston, SC 29419-9010

Re: Solicitation N62467-00-R-1801, Department of the Navy Utilities Privatization  
Initiative for Area D.

Dear Ms. Reavis:

The Florida Keys Aqueduct Authority submitted a proposal for the water distribution system at NAS Key West last year in response to the subject solicitation. I appreciate your letter of January 30, 2004 wherein you indicated your office would be in contact with us regarding our proposal.

The Authority, at that time, did not submit a proposal in response to the solicitation concerning the wastewater collection and treatment facilities at NAS Key West. Subsequent to the time that the wastewater proposal was to be submitted, the Authority and the Monroe County Commission entered an agreement to proceed with the planning and construction of a wastewater system for Big Coppitt Key, Rockland Key and Gieger Key. NAS Key West is located within the area that encompasses this proposed wastewater system.

The Authority has determined that it may be beneficial for NAS Key West and the residents living on the nearby keys to utilize the same wastewater treatment facility. Our engineers have examined the NAS Key West treatment facility with NAS Key West staff's assistance.


It appears that from an engineering and fiscal standpoint, the utilization of the NAS Key West wastewater treatment facility for an area-wide collection system could best serve all interests. I believe this option should be thoroughly reviewed before a decision is made to proceed with any other proposals.

The Authority would appreciate the opportunity to meet with you to discuss a proposal that would provide a detailed analyses of how the Navy and its neighbors could both benefit from the Authority utilizing the NAS Key West wastewater treatment facility as the cornerstone for construction of an area-wide wastewater system that meets the appropriate Advance Wastewater Treatment standards as provided for in Chapter 99-395, Laws of Florida. The Authority would also provide in its proposal for taking over the responsibility of operating and maintaining the NAS Key West collection system, as well as the other wastewater collections systems identified in Solicitation N62467-00-R-1801.

The Authority has been given the responsibility by the Florida Legislature to provide wastewater systems to the citizens of Monroe County. The Authority has a wastewater system preparing to begin operations in Marathon and systems soon to be constructed in Conch Key, Bay Point, and the remainder of the City of Marathon.

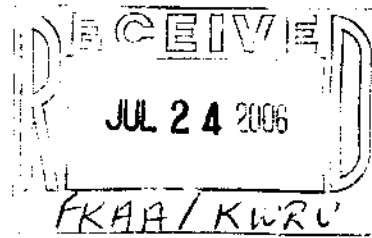
I look forward to hearing from you. Should you have any questions please contact me at your convenience.

Sincerely,  
FLORIDA KEYS AQUEDUCT AUTHORITY



James C. Reynolds, P.E.  
Executive Director

cc: Commanding Officer Jim Scholl, U.S. Navy



**Hanson-Donna**

**From:** Jim Reynolds [jreynolds@fkaa.com]  
**Sent:** Monday, July 24, 2006 4:53 PM  
**To:** BOCCDIS5  
**Cc:** Willi-Tom; Kirk Zuelch; Kerry Shelby; bobdeankw@aol.com; dritz@orcareef.com; Elena\_Herrera@DCF.State.FI.us; MaryR@orionbank.com; Rose15@earthlink.net  
**Subject:** FCAA Negotiations with KWRU  
**Attachments:** KWRU 14 Feb 2000.pdf; KWRU Offer to Sell 27 Dec 1999.pdf; Purchase Offer 7Feb2006.pdf; KWRU Financ Eval 26 April 2000.pdf

Mr. Patton –

Attached are documents pertinent to our negotiations with KWRU dating back to 1999. As we discussed there are many documents, drawings, etc. in the files, but I have only attached what is directly relevant to our negotiations.

We had a limited appraisal performed earlier this year that we used to develop our last offer this past February that was ultimately verbally rejected by KWRU. I will send that appraisal in another email.  
Jim

7 25 2006

*Law Offices of*  
*Smith, Hemmesch, Burke & Brannigan*

11 EAST ADAMS • SUITE 1400 • CHICAGO, ILLINOIS 60603-6304  
(312) 939-0100 • FAX (312) 939-7765  
GENERAL E-MAIL @shb-law.com

WILLIAM L. SMITH, JR.  
DONALD F. HEMMESCH, JR.  
KEVIN P. BURKE  
THOMAS E. BRANNIGAN  
NANCY SHAW CHOCHREK  
SCOTT M. GUETZOW

February 14, 2000

Mr. James C. Reynolds, P.E.  
Deputy Executive Director  
Florida Keys Aqueduct Authority  
P. O. Box 1239  
1100 Kennedy Drive  
Key West, Florida 33041-2454

Dear Jim:

I am in receipt of your letter of February 2<sup>nd</sup> regarding certain information within which to consider the purchase of Key West Resort Utilities.

Enclosed please find a copy of current environmental permits, permitting us for 500,000 gallons per day and also a copy of the application to increase the permitted capacity to a million gallons per day. Also enclosed, please find the last two years monthly operating reports submitted to FDEP, a copy of our most recent annual report, a copy of our current tariff, a customer account list of information and the current contract as it relates to effluent disposal. Please note that this contract is process of being modified in light of our potential sale and our requirements as outlined in our letter of December 27, 1999.

As you know, the county has recently adopted an ordinance requiring a one year notice and a thirty day notice to require customers to hook up to a current system. We are in the process of developing a plan to hook up an additional 800 ERCs within the next year. We will probably be giving notice within the next month to those who will be required to hook in.

Sincerely Yours,

  
William L. Smith, Jr.

WLS/lm

*Law Offices of*  
*Smith, Hemmesch, Burke & Brannigan*

11 EAST ADAMS • SUITE 1400 • CHICAGO, ILLINOIS 60603-8304  
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GENERAL E-MAIL [shb-law.com](mailto:shb-law.com)

WILLIAM L. SMITH, JR.  
DONALD F. HEMMESCH, JR.  
KEVIN P. BURKE  
THOMAS E. BRANNIGAN  
NANCY SHAW-GHOCHREX

December 27, 1999

VIA FACSIMILE: 305-294-5683

*1/2/00*  
*cc: PUGHLEY*  
*MALBRAT*  
*SHELBY*  
James C. Reynolds  
Florida Keys Aquaduct Authority  
P.O. Box 1239  
1100 Kennedy Drive  
Key West, Florida 33041

Dear Jim:

It was certainly a pleasure meeting with you for lunch on Friday, December 17, 1999 to discuss the K.W. Resort Utilities Corp.

Key West Resort Utilities Corp. owns and operates a wastewater treatment system consisting of one 499,000 gallon per day capacity treatment plant, 12 lift stations, 13,500 linear feet of gravity sewer with 83 manholes and approximately 12,000 linear feet of force mains. Key West Resort Utilities Corp. presently serves 1000 customers and treats 200,000 gallons per day on average. The plant itself is located on a two-acre site on Stock Island. Income for the year 1999 is approximately \$460,000.00.

In addition to its current operation, the Key West Resort Utilities Corp. territory includes approximately 1,500 homes and businesses that are not presently served by the system. The public service commission capacity reservation fee of charge assessed to each new customer is \$2,700.00. The plant has the capacity to add these 1,500 potential customers and collect \$4,050,000.00 in capacity fees without incurring additional expense, except for installing a collection system. The cost for installing a vacuum collection system these new customers has been estimated to be \$3,000,000.00. This cost does not include the roadway restoration expense which the county has indicated they will absorb. The operating budget expense for the expansion of services to 1500 new customers is projected to increase by \$100,000.00. Income, applying the approved public service commission rate of 34.25 per month, is projected to be \$650,000.00 exclusive of any capacity fees.

*616,500*

In addition to the expansion of service within its territory, the Key West Resort Utilities Corp. is expanding its territorial service area. Preliminary design for plant expansion to 1 million gallons per day has been completed and permit application to the FDEP has been made. The expansion plans contemplate the construction of a new 500,000 gallon Davco treatment facility. Adding this capacity to the existing wastewater treatment operation will accommodate the demand for wastewater treatment from the Big Coppit, Rockland and Geiger Keys. Approximately, 1,700 new customers would be served at these locations by this addition. Engineering for the expansion of Stock Island, concept engineering, permit application for plant expansion and concept engineering for the collection system and transmission line for Big Coppit, Rockland and Geiger Keys have been completed. The cost associated with and incurred by Key West Resort Utilities, Inc. in regard to plant expansion engineering exceeds \$250,000.00.

As I have previously stated, Key West Resort Utilities, Inc. would entertain an offer made by the Florida Keys Aquaduct Authority to purchase the assets and certain liabilities of Key West Resort Utilities, Inc. upon the following general terms and conditions:

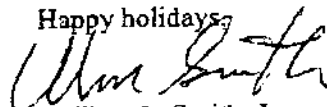
1. Asset purchase price of \$7,500,000.00 (Seven and Half Million Dollars).
2. The Florida Keys Aquaduct Authority would assume all liabilities associated with the wastewater treatment operations of Key West Resort Utilities, Inc.
3. This asset purchase agreement would be expressly contingent upon the Florida Keys Aquaduct Authority and the Key West Golf Course entering into a contract, whereby the Key West Golf Course would purchase and the Florida Keys Aquaduct Authority would sell gray water at the rate of 40 cents per thousand gallons upon the following terms and conditions:
  - a. The Florida Keys Aquaduct Authority must sell and deliver a minimum of 200,000 gallons per day but no more than a maximum of 500,000 gallons per day;
  - b. In the event the plant is unable to supply gray water to the Golf Course, the Florida Keys Aquaduct Authority would supply 200,000 gallons of "fresh water" at the rate of \$2.15 per thousand gallons/city rate for water;
  - c. The Florida Keys Aquaduct Authority will divert all gray water to the disposal wells at the request of the Key West Golf Club. Such a request will be limited to those instances when the golf course is flooded or saturated with water. Any determination that the golf course is flooded or saturated with water will be made at the sole discretion of the Key West Golf Club. The obligation to accept delivery of and pay for gray water by the Key West Golf Club shall be suspended during any period of diversion. This event on average happens 15-25 days per year;

James C. Reynolds  
December 27, 1999  
Page 3

- d. The Key West Golf Club will retain ownership, control and responsibility for the maintenance of the gray water distribution system located on the Golf Course property, including but not limited to the ponds and irrigation system;
- e. The Key West Golf Course will monitor daily the quality of the gray water to ensure its suitability for application to the Golf Course property. The expense of testing will be credited against those charges due and owing to the Florida Keys Aquaduct Authority by the Key West Golf Club; and,
- f. In the event the Florida Keys Aquaduct Authority expands the wastewater treatment plant capacity, the Key West Golf Club will accept the delivery of gray water in excess of 500,000 gallons per day, except as limited by paragraph c above. The Key West Golf Club has neither a demand nor use for gray water in excess of 500,000 gallons per day. The delivery and acceptance of this additional capacity will be without charge or expense to either party. However, the Florida Keys Aquaduct Authority will reimburse and pay to the Key West Golf Club all expenses associated with expanding the existing distribution system, including the ponds and irrigation system, as required by the FDEP to accommodate the additional gray water capacity. The cost associated with the Key West Golf Club distribution system expansion is estimated to be \$750,000.00.

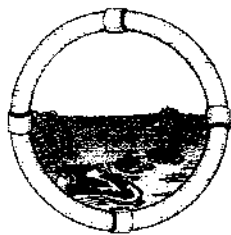
The Key West Resort Utilities, Inc. believes that the terms and conditions contained herein are reasonable and within the parameters of market value for such an enterprise. After the Authority has had the opportunity to review this correspondence and contemplate the proposed transaction, we should proceed to contract and closing.

Happy holidays,



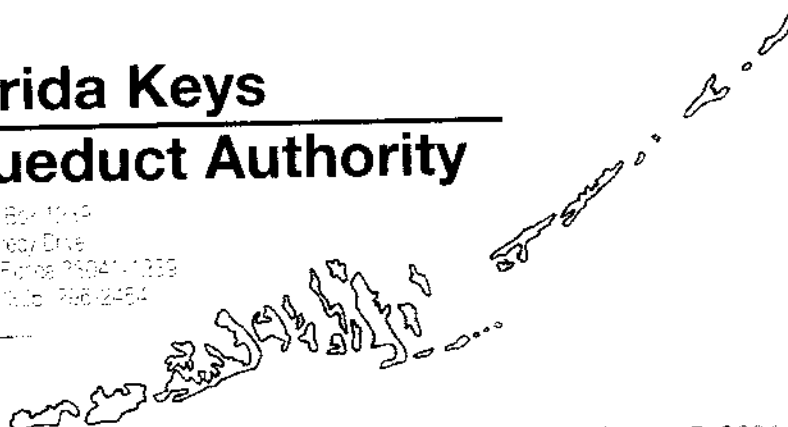
William L. Smith, Jr.

WLS/cc



# Florida Keys Aqueduct Authority

Post Office Box 1149  
1100 Kennedy Drive  
Key West, Florida 33041-1239  
Telephone 305-266-2454  
Fax 305-266-2454



Mary L. Rodgers  
Chairman  
Marathon

J. Robert Dean  
Vice-Chairman  
Key West

Elena Z. Herrera  
Secretary/Treasurer  
Rockland Key

Rosa M. De  
Big Pine Key

David O. Ritz  
Key Largo

James O. Reynolds  
Executive Director

February 7, 2006

Mr. Bill Smith  
Key West Resort Utilities Corp.  
P.O. Box 2125  
Key West, Florida 33045

Subject: Key West Resorts, Inc.

Dear Bill,

As you may be aware, the Authority Board at the January 26, 2006 meeting directed staff to initiate an offer to the Key West Resorts, Inc. ("Company") for the potential acquisition of the wastewater assets and service territory of the Key West Resorts, Inc. system (the "System"). Furthermore, we have had a preliminary appraisal prepared by Calhoun, Dreggors, and Associates, Inc. (the "Appraisers") in order to determine a value for the System. Based on preliminary information provided by the Appraisers and our understanding of the System, we offer the following for your consideration:

1. **Property:** the acquired property shall consist of all wastewater collection, transmission, treatment, and effluent disposal facilities, including the reclaimed water transmission line, owned and operating by the Company and providing service to the customers of the System. This would require the dedication or transfer of all easements and rights-of-way required to provide service to the customers of the System. Additionally, the property shall include i) all tangible property such as vehicles, equipment, computers, inventory and rolling stock; ii) all necessary permits required for the operation of the System; iii) records and files associated with the facilities in service (final construction plans); iv) customer service and billing records; v) and other property as identified by the Parties as a condition of entering a Purchase and Sale Agreement (collectively, the "Property"). The Property will not include any accounts receivables that are due at time of Closing. The Property will be purchased by the Authority on an "as-is, where-is" basis (condition, location, etc.).

2. **Purchase Price:** The Authority will pay to the owners of the Company \$8,000,000 for the acquisition of the Property. The Company will not construct the expansion of the wastewater treatment plant from 0.499 mgd to 0.750 mgd and going to advanced wastewater treatment; this will be the responsibility of the Authority. The Company will advance to the Authority all funds collected to the date of closing associated with the \$600 per EDU rate as agreed between the Company and Monroe County (the "County") for the conversion of the wastewater plant to advanced wastewater treatment. Any funds received by the Authority for customer charges and system development fees after the execution of the Purchase and Sale Agreement will be retained by the Authority and will not be available as additional compensation to the Company.
3. **Excluded Assets:** Excluded assets shall include any cash, except customer deposits and the advanced wastewater treatment plant funds collected from previous customers (i.e., the \$600 per EDU rate) for the plant modification to advanced wastewater treatment, accounts receivable, leased assets of the System not directly related to the wastewater treatment plant, and the irrigation system at the golf course at the Key West Golf Club (KWGC).
4. **Reclaimed Water:** All treated effluent from the wastewater plant up to 0.499 mgd will be available for irrigation water at the KWGC. The Authority will not commit any reclaimed water to any other customer associated with the current System capacity of 0.499 mgd without the approval of the KWGC. The rate for reclaimed water will remain fixed at \$0.40 per 1,000 gallons of delivered water for a minimum of 5 years from the date of purchase, with the exception of the application of indexing for inflationary cost recovery. The Authority will divert all effluent not used by the KWGC to the disposal wells or use at other disposal sites. Additionally, the KWGC shall own the reclaimed water distribution system and the Authority will own the transmission line up to the Point of Delivery which will need to be identified by exhibit and designated in the eventual Purchase and Sale Agreement.
5. **Company Liabilities:** Since the Authority is purchasing the assets and service area of the Company, no outstanding liabilities will become obligations of the Authority. The Company will have a Phase I Environmental Assessment performed on all the plant sites owned or used for System operations to validate that no adverse environmental conditions exist at the time of closing of the transaction. The Company will be responsible for all liabilities outstanding or incurred up to the date of closing.
6. **Transition Costs:** The owners of the Company shall apply for and secure a termination of its franchise from the Florida Public Service Commission and shall be responsible for payment of regulatory assessment fees and other related charges, if any, accrued up to the time of closing. The Authority will conduct a public information meeting at its cost with the affected ratepayers prior to closing to

inform the public of the transaction and change in service providers. Each of the Parties will be responsible for their specific legal, engineering, and financial costs incurred as a result of the transaction.

7. **Operations Contract:** The Authority will enter into an operations contract for a minimum five-year term with the current operator of the wastewater treatment plant. The terms and conditions of the operations agreement will allow for a compensation package that approximates the same level currently being received by the operators of the System. The operations contract can be cancelled by the contract operator with 6 months previous written notice to the Authority at any time during the initial five year operations contract term. The Authority will be able to terminate the for non-performance of the operations contract
8. **Engineering Due Diligence.** Prior to entering into a Purchase and Sale Agreement, the Company will allow the Authority the opportunity to review the System assets for condition and ability to comply with the requirements of the operating permits issued by regulatory agencies with oversight authority (e.g., Florida Department of Environmental Protection). If the engineering due diligence evaluation determines that additional expenses are required to meet the Authority standards, the Authority will have the right to terminate the agreement unless the deficiencies are cured by the Company to the satisfaction of the Authority.

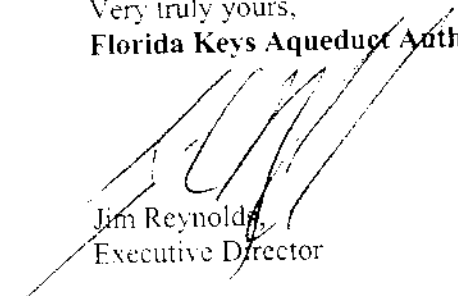
As you know, the general terms and conditions as described above, if accepted by you, are contingent upon the review and approval of the FCAA Board of Directors. We believe that the offer delineated above represents a reasonable offer for the System and we appreciate your consideration of these terms for the purchase of the System by the Authority. We believe that this is a reasonable and fair proposal recognizing the specifics of the Parties' needs, the current investment of the Company in the System, and the overall service conditions. When compared to the initial offer that was verbally accepted by you during 2000 of \$7,500,000 which included the "futures" associated with the full System growth and expansion of the System service area which has now been underway, this represents an overall increase to the overall funds received by the Company by over \$3,400,000 as shown below:

	<b>Amount</b>
Plant Capacity Fees collected (Futures in previous offer) (1)	
During 2001	\$120,747
During 2002	488,400
During 2003	1,220,161
During 2004	1,106,719
Subtotal of Plant Capacity Fees received	2,936,027
Operating Income and Management Fees Received (1) (2)	
During 2001	\$38,293
During 2002	127,566
During 2003	(59,788)
During 2004	(97,222)
Subtotal of Other Funds Received	8,849

Proposed Acquisition Price	\$8,000,000
Total Funds Received by Company	\$10,944,876
Initial Offer by FKAA (3)	\$7,500,000
Increase in Funds Received by Company	\$3,444,876
Increase in Funds Received by Company - without Other Funds	\$3,436,027
<p>(1) Amounts shown derived from each respective year Annual Report submitted by the Company to the Florida Public Service Commission. The 2005 Annual Report is not available but the inclusion of such amounts is anticipated to increase the overall funds received by Company.</p> <p>(2) Operating Income includes depreciation expense which is a non-cash expense of the company.</p> <p>(3) Initial offer of FKAA based, in part, on the purchased price contained in Bill Smith Offer Letter dated December 27, 1999 to the Authority.</p>	

If you accept the Authority's offer as outlined herein and it is approved by the Authority's Board of Directors, I suggest that the Parties craft a Memorandum of Understanding to more fully describe the terms and conditions of the transaction and the responsibilities of the Parties so we can move forward with the transaction. Please do not hesitate to give me a call if you have any questions with regard to our proposal and we look forward to hearing from you soon.

Very truly yours,  
**Florida Keys Aqueduct Authority**

  
 Jim Reynolds  
 Executive Director

DRAFT

April 26, 2000

PRMG # 1097-03

Mr. Roger Braun  
Director of Utilities  
Florida Keys Aqueduct Authority  
P. O. Box 1239  
1100 Kennedy Drive  
Key West, FL 33041

**Subject: Preliminary Financial Evaluation of Key West Resort Utilities Corporation**

Dear Mr. Braun:

Public Resources Management Group, Inc. (PRMG) has prepared a preliminary financial evaluation of the wastewater facilities of the Key West Resort Utilities Corporation ("K.W. Resort Utilities" or the "Utility"). The purpose of the preliminary financial evaluation is to assist the Florida Keys Aqueduct Authority ("FKAA") in its evaluation of K.W. Resort Utilities' offer to sell its wastewater system facilities and assets. The preliminary financial evaluation set forth in this report is based on two methods that are summarized for your consideration: i) a going concern or present value/cash income analysis, and ii) a debt capacity analysis. Both of the financial analyses are based upon preliminary projections of cash flows generated by current and future operations of the Utility in order to provide information to the FKAA as it relates to the financial aspects of the potential purchase of the Utility. The preliminary financial evaluation set forth herein, subject to additional due diligence, including further verification of the assumptions relied upon in the analysis and the service area, financial and cost data provided by K.W. Resort Utilities, along with an engineering review and evaluation of the facilities owned by the Utility and verification of the cost estimates and assumptions included in the Utility's Engineering Master Plan, should provide a basis for FKAA's consideration of K.W. Resort Utilities' offer to sell the wastewater system. The present value/cash income analysis and the debt capacity analysis are commonly used along with other methods to determine the value of utility system properties and the results of these analyses should assist FKAA in its negotiations with the Utility owners.

In the development of the preliminary financial analyses, which are summarized in the tables and schedules included at the end of this letter report, PRMG relied upon i) information contained in the Utility's Annual Reports for the calendar years 1995 through 1999, as filed with the Florida Public Service Commission (FPSC); ii) discussion with the owners of the Utility relative to future growth and service area needs of the Utility; iii) detailed customer billing information for general service customers served during calendar year 1999; and iv) assumptions and information contained in the Utility's Engineering Master Plan regarding the expansion of the Utility system in order to provide wastewater collection and treatment services to both existing and new development within the Utility's service area. To the extent we have relied upon certain

data, cost estimates and information obtained from K.W. Resort Utilities and others in the preparation of this report, we have relied upon such information to be accurate and no assurances are intended and no representations or warranties are made with respect thereto or the use made herein.

For the purposes of developing the present value/cash income analysis of the Utility, a 30-year forecast period was utilized. In developing the debt capacity analysis the first five years of the forecast were utilized. The first year of the analysis was assumed to be calendar year 2000. The projected costs and revenues used in the preliminary financial evaluation are based upon the Utility's actual financial operating results for calendar year 1999 with certain adjustments as described herein. The estimated costs to operate and maintain the Utility's wastewater system have been projected from the 1999 base year to reflect the impact of anticipated customer growth on operating costs and such projections do not reflect any increases in costs due to inflation. Similarly, the estimated revenues over the forecast period are based upon the wastewater rates currently in effect and such rates are not indexed for cost inflation.

The remainder of this report summarizes the results of the preliminary financial evaluation including an overview of the principal assumptions and considerations utilized by PRMG in preparing such evaluation of the wastewater system owned by K.W. Resort Utilities.

## **GENERAL**

The K.W. Resort Utilities provided wastewater service to 846 customers as of December 1999. These customers included 807 residential customers, 39 multifamily units and 16 commercial customers located on Stock Island. Historical customer billing statistics, the number of accounts, multi-family units and commercial accounts served, and wastewater treatment for the calendar years 1995 through 1999 are included in Appendix A. In addition to its current operation, the Utility's service territory includes a significant number of homes and businesses that are not presently served by the Utility. In preparing the preliminary financial evaluation, we have assumed that a major investment will be undertaken to expand the Utility's wastewater collection system providing wastewater service to an additional 1,320 customers over the next five years. The analysis also assumes that once the collection system is expanded, the Monroe County mandatory sewer connection ordinance will require that all parcels with sewer lines fronting the property be required to connect to the system within one year of central sewer service being made available.

The Utility has developed an Engineering Master Plan (the "Master Plan") and cost estimates to provide sewer service throughout Stock Island. The Master Plan contemplates a three-phase program to expand the sewer collection system. Based on current flow levels and wastewater treatment capacity available to serve new growth, our analysis shows that the existing wastewater treatment facilities can provide wastewater treatment service to the new customers included in Phase I and Phase III of the Master Plan, several areas currently served by package plants and the remaining development associated with the Key West Golf Club Development (54 homes) and Sunset Marina (45 additional multifamily units, a restaurant and a dock master

building). In order to provide service to the areas designated as Phase II in the Master Plan, or any additional areas outside the current service territory, the Utility will be required to expand the existing wastewater treatment plant capacity. For purposes of the preliminary financial evaluation, we have limited the projected customer growth to that which can be served by existing treatment plant capacity. At present, the wastewater treatment plant has a capacity of 499,000 gallons per day of average daily flow. In calendar year 1999, the Utility treated an average daily flow of approximately 229,156 gallons per day. In order to determine the ERUs available for new service an adjustment was made to the actual flow to account for the difference between the average number of customers served in 1999 to the year end number served. At the current rate of utilization the wastewater treatment plant can provide service to approximately 1,306 additional equivalent residential units (ERUs) based on an average daily flow of 205 gallons per ERU. The tabulation below shows the derivation of potential new customer growth that can be served by existing treatment facilities.

Wastewater Treatment Capacity (ADF)(GPD)	499,000
Wastewater Treated (Year End 1999) (ADF)(GPD)	231,270
Treatment Capacity Available to Serve New Growth (ADF)(GPD)	267,730
Estimated Flow per ERU (ADF)(GPD)	205
Potential Customer Growth (ADF)(GPD)	<u>1,306</u>

#### **CUSTOMER FORECAST**

Since the present value/cash income analysis and the debt capacity analysis both recognize projected changes in cash flow (primarily derived from increased sales revenues), a significant assumption deals with the potential growth of the Utility service area. To the extent that a significant amount of growth can be served from the existing treatment plant capacity, the potential for an increased level of net revenues (increased cash receipts less increased operating expenses) and thus an associated increase in the present value and debt capacity of the Utility will occur. As presented in the most recently filed 1999 Annual Report, the Utility provided sewer service to approximately 846 customers at the end of the year. Based on the goal of providing central sewer service throughout Stock Island and the expansion of the sewer collection system as outlined in the Utility's Master Plan, it is assumed that a significant amount of growth will occur in the near future. The following table summarizes the number of ERUs anticipated to be served by such system expansion based on the Master Plan provided by the owners of the Utility.

<u>Area of Growth</u>	<u>Number of Additional ERUs</u>	<u>Development Assumption</u>
Key West Golf Club Development	54	Service Available; Built-Out Uniformly over 4 Years
Sunset Marina	60	Service Available; On Line by 2001
Phase I System Expansion (Sewer Retrofit)	684	Construction to Commence 2001; Connections Initiate 2002, Retrofit Uniformly over 3 Years
Phase I System Expansion (Vacant Lots)	28	Built-Out over 11 years starting in 2002
Roy's Trailer Park (Package Plant)	108	Connected in 2002
Boyd's Campground (Package Plant)	28	Connected in 2002
Phase III System Expansion (Sewer Retrofit)	344	Construction to Commence 2002; Connections Initiate 2003, Retrofit Uniformly over 3 Years
Totals	<u>1,306</u>	

\* 100% of existing  
 Eng. Capital

As can be seen from the table above and in the detailed schedules of projected customer growth included in Appendix A above, the near-term growth potential of the service area, largely based on providing sewer service to existing development under a mandatory hookup ordinance as anticipated by the owners of the Utility, is material, assuming expansion of the sewer collection system and as such was recognized in the financial analyses included in this report. The assumptions regarding the infill of new construction on vacant lots in the Phase I sewer collection expansion area is based on the Master Plan estimates and the available treatment capacity and it is assumed that the growth in the customer base due to new construction reflected herein is within the limits imposed by Monroe County's rate of growth ordinance. Also it is assumed that previously reserved capacity for Key West Golf Club Development and Sunset Marina for new construction which must still be completed will also be allowed as projected herein under the County's rate of growth ordinance.

#### FINANCIAL EVALUATION – ASSUMPTIONS AND CONSIDERATIONS

The general approach used in the determination of the present value of the current and future cash flow assumed the operations of the Utility under a public ownership basis. This assumption required certain adjustments in the cost incurred for Utility operations, as reported in the 1999 Annual Report for the privately owned Utility, to be recognized in the cash flow projections.

In the development of the financial projections used in the present value/cash income analysis and the debt capacity analysis included in Tables I and II, respectively, at the end of this report, a number of assumptions were utilized and certain operating expense adjustments were made. Detailed schedules showing the various components of the financial evaluation are included in Appendix A at the end of this report. The following is a summary of the assumptions and operating expense adjustments recognized in the financial analysis.

1. Sales revenues derived from the application of the monthly wastewater rates were based upon i) historical customer billing data reported by the Utility and summarized in its Annual Report; ii) the forecast of additional customer growth based on collection system expansion



as described above; and iii) the existing rates for service based on the FPSC approved wastewater rates without any further adjustments for rate indexing or future rate increases.

2. The current rates for wastewater service were placed into effect for services rendered on or after September 30, 1999 and, therefore, have been in effect for less than seven months. The Utility has four rates classifications: i) Residential; ii) General Service; iii) Private Lift Station; and Reclaimed Water.

The residential customer classification includes single-family homes, mobile homes and individually metered multi-family housing, such as condominiums and apartments. The Utility's existing rates for wastewater service are as follows:

A. Residential (per dwelling unit): Flat rate per month of \$34.56

B. General Service:

<u>Meter Size</u>	<u>Base Facility Charge Per Month</u>
5/8" x 3/4"	\$26.29
1"	\$63.92
2"	\$196.35
3"	\$388.93
4"	\$605.62

Charge per 1000 gallons of metered water use \$2.92

C. Private Lift Station

<u>Meter Size</u>	<u>Base Facility Charge Per Month</u>
5/8" x 3/4"	\$27.81
1"	\$63.92
2"	\$196.35

Charge per 1000 gallons of metered water use \$2.35

D. Reclaimed Water \$0.40 per 1000 gallons of reclaimed water delivered

3. With respect to historical wastewater flows, the average monthly flow for existing customers has ranged between 202 and 254 gallons per average annual customer per day. With respect to the service provided to additional customers, it was assumed that such customers would have flow requirements of 205 gallons per day, based on estimates included in the Master Plan. In order to meet the service area growth potential, a major capital investment in sewer collection system facilities will be required by the owners of the Utility. For purposes of the financial evaluation, it is assumed that the Utility will undertake a comprehensive approach to expanding the sewer collection system facilities in order to provide central sewer service throughout much of Stock Island, as contemplated in the Utility's Master Plan. The cost estimates used to reflect this investment are based on developing a vacuum collection system, which represents the lowest cost alternative to provide central sewer service throughout most

of Stock Island. Based on cost estimates and information from the Utility Master Plan for Phase I and Phase III of the collection system expansion, which the Utility owners indicate are the most economically feasible of the three phases designed to serve Stock Island as described in the Master Plan, the capital investment assumed in this analysis is summarized as follows:

Capital Improvement	Amount	Assumed Year of Expenditure
Phase I - Vacuum System Expansion	\$ 1,750,356	2001 through 2003
Phase III Vacuum System Expansion	1,084,135	2002 through 2004
Total Recognized Investment	<u>\$ 2,834,491</u>	

4. For the purposes of this analysis, it was assumed that the cost of the connection of the property to the wastewater mains (tap) and any on-site cost to remove existing septic systems and sewer treatment facilities, such as package plants, would be paid directly by the customer.
5. In addition to revenues derived from the application of the monthly rate for service, other revenues and sources of funds (cash) were recognized in the analysis. These sources included i) capacity fees based on the new connections recognized in the forecast and the current capacity charge of \$2,700; ii) miscellaneous service charge revenues (turn-on/off charges and other miscellaneous income) which were also recognized; iii) revenues from sales for reclaimed water to the Key West Golf Club were based on the terms of the Wastewater Reuse Agreement, expected reclaimed water available from the treatment process, and the amount of reclaimed water required by the development purchased at a rate of \$0.40 per 1,000 gallons; and iv) interest income on working capital balances allowed by the FPSC under general rate-making principles were also included in the financial analysis.
6. With respect to the projected cost of operations and maintenance, several adjustments were made to the operating expenses reported in the 1999 Annual Report to reflect operations under public ownership, rather than private ownership. The adjustments recognized in the financial projections include the following:
  - A. Contract management fees associated with Utility administration and contract accounting fees were each reduced by \$10,000 in the 1999 base year to reflect administrative savings anticipated under public ownership.
  - B. To account for unforeseen expenses and extraordinary maintenance, which may occur periodically, a contingency allowance has been recognized in the present value/cash income and debt capacity calculations. Specifically, a 5% contingency allowance applied to the adjusted operating expenses has been recognized. The contingency allowance serves as a reduction in the net revenue available to the Utility.

- C. With respect to state and federal income taxes, property taxes, and regulatory assessment fees, such amounts were not recognized. Such amounts represent expenditures recovered from rates solely for those utilities that are privately owned and regulated by the FPSC. Publicly owned utility systems do not incur such costs and, as such, these expenses have not been recognized in the financial projections used to develop the present value/income analysis and the debt capacity analysis.
  - D. Included as a cost of the system reported in the 1999 Annual Report is depreciation expense on the used and useful utility plant investment of K.W. Resort Utilities. Such amounts are a non-cash expense and are generally not recognized as a cost to be recovered from the rates of a public utility. As such, this expense was not recognized in the net revenue projections.
  - E. The adjusted operating expenses for the Utility were subsequently escalated for the forecast period, recognizing several escalation parameters. Although no overall cost inflation adjustment was recognized in the analysis, certain expenses were escalated to recognize the effect of the Utility system's anticipated customer growth. Specifically, expenses that were considered to be variable (flow) related, such as chemicals and electric power, were escalated in accordance with the increased customer growth and flow requirements. Expenses that were related to the number of customer served (e.g., the customer accounting component of the contact operations costs bad debt expense) were increased based on the growth in customers served by the Utility. Other expenses were adjusted, as deemed appropriate, recognizing the lack of inflation indexing assumed in the analysis.
3. In addition to the cost of operations and maintenance, an allowance for the funding of a renewal and replacement fund (R&R Fund) was recognized. The purpose of an R&R Fund is to accrue money to provide funds for the renewal, replacement, upgrade, and betterment of the Utility plant over time. For public utilities which utilize utility revenue bonds to finance capital improvements (which includes the Florida Keys Aqueduct Authority), the authorizing bond resolution for such bonds generally requires that a utility fund and maintain an R&R Fund. Generally, the deposits to such fund are expressed as a percentage of gross revenue, with the most common funding percentage being equal to five percent (5%). For the financial evaluation, which assumes public ownership, deposits to an R&R Fund equal to 5% of the previous year's gross revenues has been assumed in each year. This funding deposit (i.e., a revenue requirement from rates) would be in addition to any repair and maintenance expenses included as a component of the daily operations of the Utility.

#### **PRESENT VALUE / CASH INCOME ANALYSIS**

Based on i) the assumptions recognized in the financial evaluation, as discussed above; ii) information provided by the Utility; and iii) data presented in the Annual Reports, as submitted by the Utility to the FPSC; the estimate of the present value of the future cash flows generated for system operations is summarized below. In order to determine the present value of

the future cash flows generated by the Utility operations, a discount factor of 6.0% was used to convert the Utility's projected cash flow under public ownership over a thirty-year period to present value. This discount factor was deemed to be reasonable by PRMG for the purposes of the present value/cash income analysis and is consistent with assumptions about the cost of new debt utilized in the debt capacity analysis. The detailed analysis of the present value of the future cash flow for the Utility is included on Table I at the end of this report.

Description	Amount
Net Available Revenues - System Operations	\$ 5,789,367
Net Present Value - Plant Capacity Charges (Impact Fees)	2,936,443
Net Present Value - Additional Company Investments	<2,514,637>
Total System Net Present Value	\$ <u>6,211,173</u>

As can be seen in the summary above, the estimated net present value of the Utility is approximately \$6,211,173. Based on the assumptions utilized in the financial evaluation herein, the present value of future cash flows can be considered as a method to estimate the opportunity cost of the owners for the future revenue stream of the Utility system.

#### **DEBT CAPACITY ANALYSIS**

A major financial consideration that should be addressed deals with whether the acquired system can financially support itself based on revenues derived from existing rates in relation to the acquisition price paid by the FKAA. In order to address this issue, it is beneficial to have an understanding of the debt capacity of the Utility. Debt capacity is defined as the amount of debt that can be funded from the net revenue contribution that is available to pay principal and interest payments on revenue bonds assumed to be used to finance the acquisition of the Utility by the FKAA. The primary issue addressed in this analysis is whether the existing customers of the Utility are affected from a ratemaking standpoint as a result of the acquisition cost and subsequent capital requirements to expand the system.

Table II included at the end of this report, summarizes the debt capacity analysis of K.W. Resort Utilities' wastewater system for each year over the next five (5) calendar years beginning with 2000. With respect to the amounts available to fund the acquisition of the Utility recognized in the analysis, the criteria includes the debt service capacity based on the projected revenues and operating expenses adjusted for public ownership and the capital improvement requirements as discussed herein. As can be seen on Table II at the end of this report, the amount available for utility acquisition based on the estimated debt capacity for the K.W. Resort Utilities is approximately \$1,321,059 in the year 2000 growing to approximately \$4,974,686 by the year 2004. The growth in debt capacity assumes completion of the collection system expansion and hookup of 1,306 additional ERUs phased in over the same time period, application of existing rates and plant capacity charges and projected operations for fiscal years 2000 through 2004, as discussed herein. This amount reflects the net principal amount of bonds that could be issued depending on the timing and structuring of the transaction for the acquisition of the Utility and is

based on the following financing assumptions in addition to the other assumptions discussed herein..

1. In the development of the debt capacity analysis, we have assumed a 10% coverage requirement in order to meet the rate covenant requirement of the FKAA's governing Bond Resolution. By providing a 10% coverage allowance as a revenue requirement in conjunction with renewal and replacement funding requirements recognizes the financial obligations to produce operating margins in determining the amount available to pay for debt service related to the acquisition cost.
2. In calculating estimated debt capacity, the financing assumptions include an allowance for the cost of the bond issuance at 2.8% with an additional 0.15% to purchase a surety contract to fund cash reserve requirements and acquisition /transaction costs of \$150,000.
3. In the development of the estimates of projected debt capacity, the analysis assumes that debt capacity is defined as the principal amount of utility tax-exempt revenue bonds that would be issued to finance the acquisition of the Utility. To calculate debt capacity, the financing terms assumed included i) payment terms of 30 years; ii) average annual interest rate of 6.0%; and iii) no capitalized interest payment from bond proceeds.
4. In addition to the financing assumptions, the debt capacity analysis also considers the cash flow implications, or net funding requirements, if any, associated with capital recovery from plant capacity requirements versus collection system expansion costs. Since the analysis assumes no additional plant capacity requirements, it was assumed that all of the plant capacity fees would be available to fund the cost of expansion of the collection system.

We appreciate the opportunity to provide this financial evaluation of the wastewater system of the Key West Resort Utilities to the Florida Keys Aqueduct Authority and hope that it proves beneficial during the negotiation for the potential purchase price and terms of the Utility acquisition. This analysis should not be considered as an appraisal of the Utility system but is an financial evaluation prepared solely for the Florida Keys Aqueduct Authority to provide assistance in the negotiation of the potential purchase offer for the Utility. If you should have any questions with regard to the assumptions used, or the results of the financial evaluation as contained in this report, please do not hesitate to give us a call.

Very truly yours,  
Public Resources Management Group, Inc.

Robert J. Ori  
President

bcc: